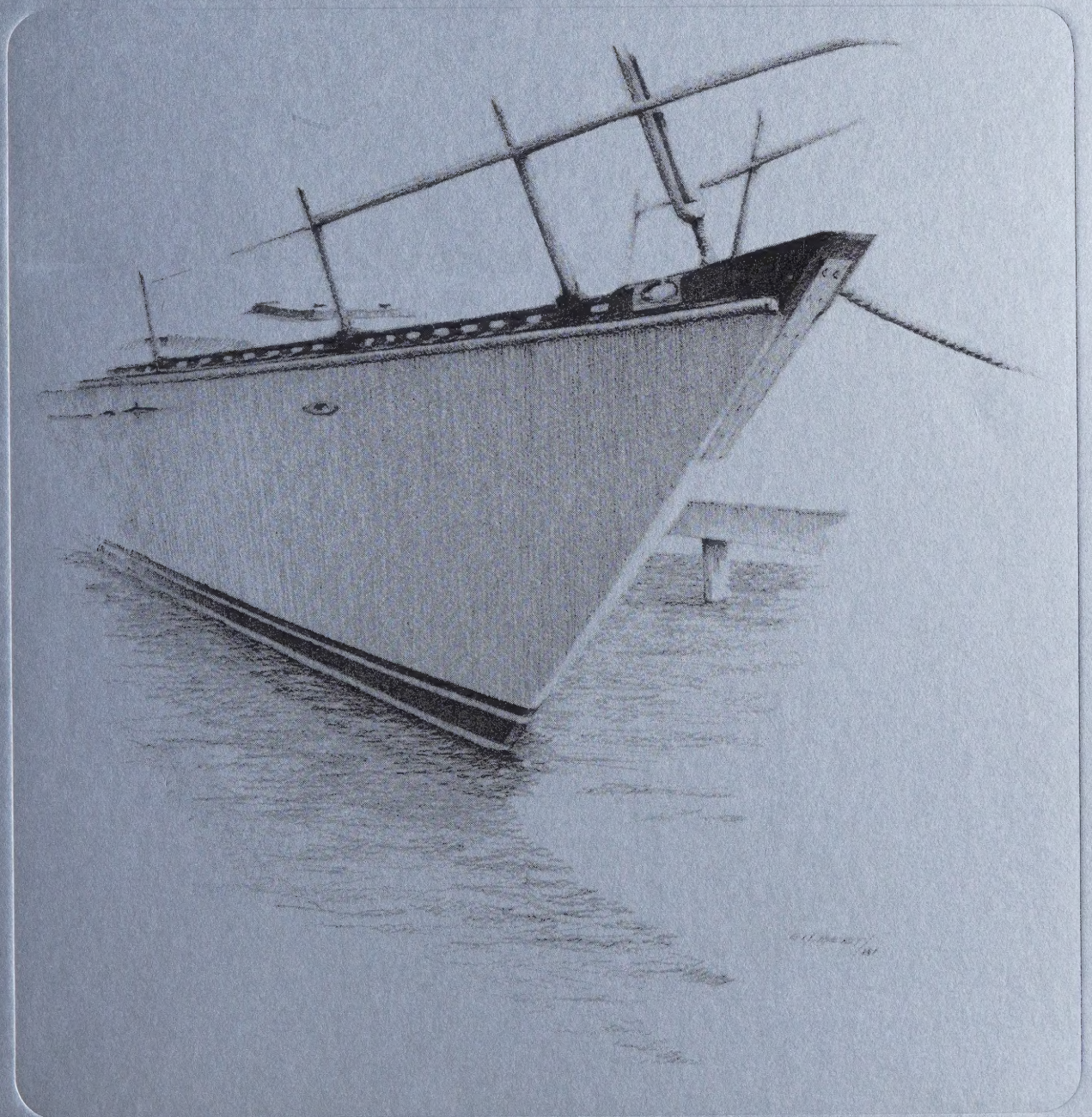


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C&C YACHTS

ANNUAL REPORT
1981

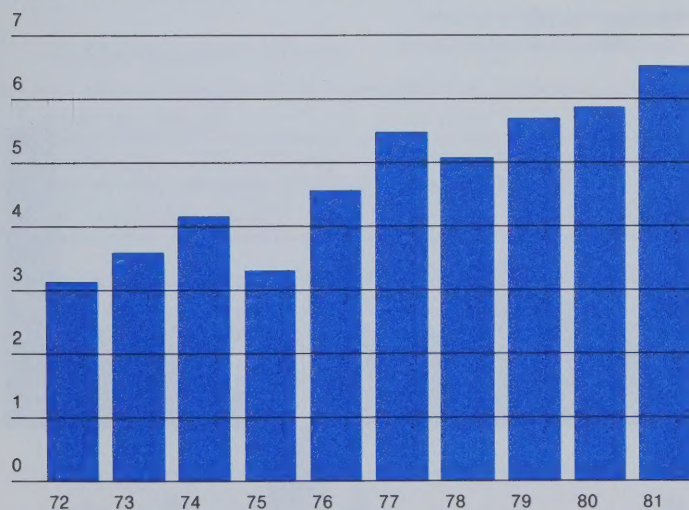


Report to Shareholders

Fiscal 1981 was a climactic year for C&C Yachts Limited. Record sales of \$39.7 million increased 30% from the prior year and yielded the highest gross margin ever of 20%. Net earnings of \$1,669,000 translate to \$1.24 per share, well in excess of any prior year.

These operating accomplishments were achieved in a year which saw many falter, both in our industry and in others. Underlying was our commitment made years ago to expand, and to grow, and to aggressively seek market share. Last year I reported to you that our share gains had accelerated in a declining market and the sales figures reported herein reveal further major gains in fiscal 1981. Our product line has been biased toward auxiliary sailing yachts over 30 feet in length and our posture has continued as the premier yacht builder in North America, building products that command premium prices.

Sales of Manufactured Yachts (millions of pounds)



Historically, we have made our best gains during recessionary times and this year was no exception. The direct impact of interest rates was relatively low as production moved quickly to market, inventories did not build and our needs for bank financing were minimal. Some interest costs "returned" through our dealer incentive programs, and are reported within expenses. However, the overriding effect of the high rates was clearly encouragement to the funded buyer to place his funds in a recreational investment which could be expected to at least keep pace with inflation.

History has borne out this contention, our advertising emphasized it and our customers responded.

In 1981, our years of commitment to growth of sales and market share paid off with the reported net earnings which are a return of 18.6% on shareholders' equity. This prospect did not go unnoticed as the attention of an acquirer was attracted and an offer for control was made early in the year. After several improvements, your directors recommended acceptance at a price of \$5.25 per share with the proviso that every shareholder would in due course have the opportunity to tender 100% of his holdings. Accordingly, Air Ontario Limited of London, Ontario, acquired 70% of the outstanding stock of C&C Yachts Limited on April 9, 1981, and having themselves undergone some reorganization in the interim, have now announced their intention to fulfil the balance of their obligation to C&C shareholders at a price of \$6.00 per share. Your Board of Directors has met and recommends acceptance of the proposal. Given the shareholders' approval, it is intended that C&C Yachts Limited will revert to private status after more than 12 years as a public corporation.

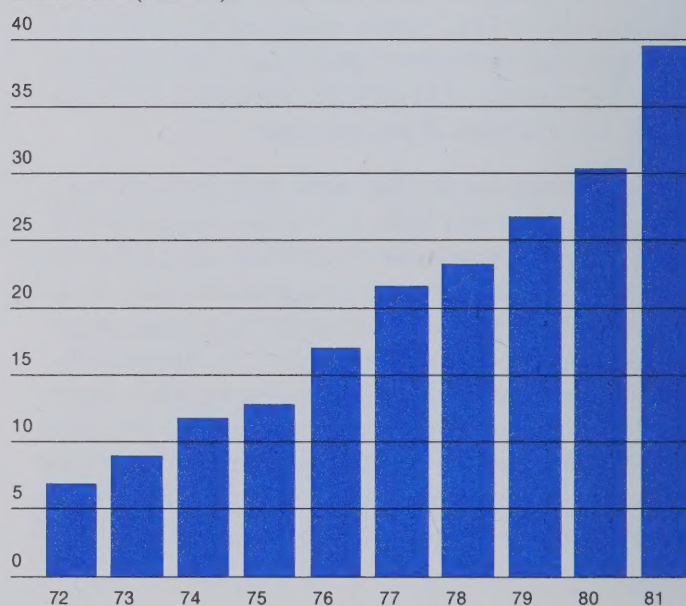
This Canadian company is today the leader in our industry in North America. Our success is the product of many years of dedicated and imaginative effort by all our employees in their varied disciplines, by the commitment of our principals, past and present, and by the excellence of those with whom we have chosen to work through the years—dealers, auditors, suppliers, consultants, legal counsel—all who contribute to building a successful business, and furthering an industry.

Particular thanks is due to our loyal and supportive shareholders and our many, many customers.

Our purpose now is to continue the C&C tradition of excellence.

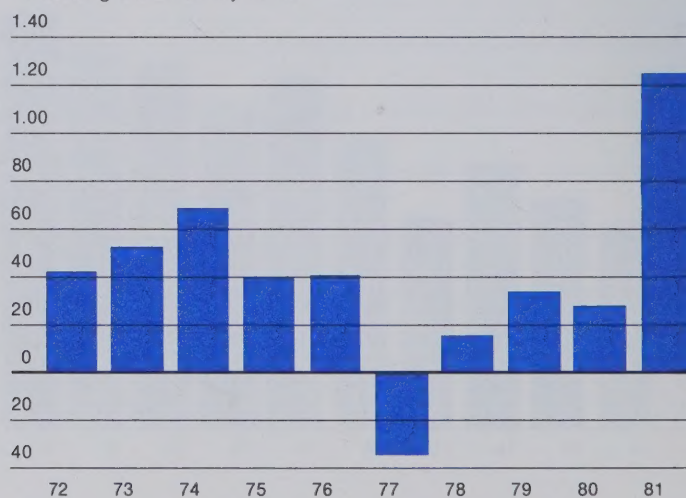
George H. Cuthbertson,
Chairman and Chief Executive Officer,
November 27, 1981.

Dollar Sales (\$ Million)



Earnings* (loss) (¢/share)

*excluding extraordinary items

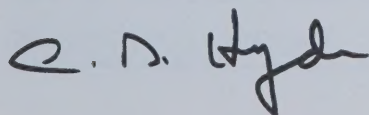


Consolidated balance sheet as at September 30, 1981

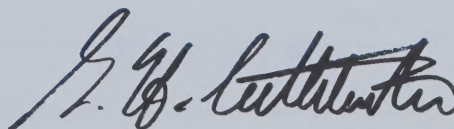
| ASSETS | 1981 | 1980 |
|--|------------|------------|
| CURRENT ASSETS | | |
| Cash and short term investments | \$ 228,000 | \$ 290,000 |
| Accounts receivable | 2,638,000 | 1,924,000 |
| Inventories (note 2) | 7,937,000 | 5,752,000 |
| Net assets of discontinued operations (note 3) | — | 240,000 |
| Prepaid expenses | 56,000 | 133,000 |
| | 10,859,000 | 8,339,000 |
| Fixed assets and leased property (note 4) | 4,916,000 | 3,966,000 |
| Other assets and deferred expenses (note 5) | 223,000 | 252,000 |
| Intangible assets | 2,628,000 | 2,493,000 |
| | 18,626,000 | 15,050,000 |
| LIABILITIES | | |
| CURRENT LIABILITIES | | |
| Bank indebtedness (note 6) | — | 1,073,000 |
| Accounts payable and accrued liabilities | 4,519,000 | 2,648,000 |
| Deposits from customers | 806,000 | 763,000 |
| Income taxes payable | 1,276,000 | 88,000 |
| Long term debt due within one year | 403,000 | 450,000 |
| | 7,004,000 | 5,022,000 |
| Long term debt and obligation under capital lease (note 7) | 2,281,000 | 2,536,000 |
| Deferred income taxes | 367,000 | 187,000 |
| | 9,652,000 | 7,745,000 |
| SHAREHOLDERS' EQUITY | | |
| CAPITAL STOCK | | |
| Authorized—2,000,000 common shares without par value | | |
| Issued and fully paid—1,348,000 common shares | 5,089,000 | 5,089,000 |
| RETAINED EARNINGS | 3,885,000 | 2,216,000 |
| | 8,974,000 | 7,305,000 |
| | 18,626,000 | 15,050,000 |

(see accompanying notes)

Signed on behalf of the board:



Director



Director

Consolidated statements of earnings and retained earnings for the year ended September 30, 1981

| STATEMENT OF EARNINGS | 1981 | 1980 |
|---|--------------|--------------|
| Sales | \$39,652,000 | \$30,504,000 |
| Cost of sales | 31,713,000 | 25,878,000 |
| Gross profit | 7,939,000 | 4,626,000 |
| Selling and administrative expenses | 4,532,000 | 3,200,000 |
| Interest—short term debt | 13,000 | 242,000 |
| —long term debt | 372,000 | 381,000 |
| (Gain) loss on translation of foreign assets and liabilities | (143,000) | 32,000 |
| | 4,774,000 | 3,855,000 |
| Earnings before income taxes | 3,165,000 | 771,000 |
| Income taxes—current | 1,316,000 | 94,000 |
| —deferred | 180,000 | 289,000 |
| | 1,496,000 | 383,000 |
| Net earnings for the year | 1,669,000 | 388,000 |
| Earnings per share (based on number of shares outstanding of 1,348,000) for the year | \$1.24 | \$.29 |

STATEMENT OF RETAINED EARNINGS

| | | |
|---------------------------|--------------|--------------|
| Balance—beginning of year | \$ 2,216,000 | \$ 1,828,000 |
| Net earnings for the year | 1,669,000 | 388,000 |
| Balance—end of year | 3,885,000 | 2,216,000 |

(see accompanying notes)

Consolidated statement of changes in financial position for the year ended September 30, 1981

| SOURCE OF FUNDS | 1981 | 1980 |
|---|-------------|------------|
| Provided from operations— | | |
| Earnings for the year | \$1,669,000 | \$ 388,000 |
| Items not affecting working capital— | | |
| Depreciation and amortization | 925,000 | 948,000 |
| Tax benefit realized | — | 217,000 |
| Deferred income taxes | 180,000 | 72,000 |
| | 2,774,000 | 1,625,000 |
| Increase of long term debt | 220,000 | — |
| Reduction in other assets and deferred expenses | 23,000 | 96,000 |
| Proceeds on disposal of fixed assets | 138,000 | 47,000 |
| | 3,155,000 | 1,768,000 |

USE OF FUNDS

| | | |
|--|-----------|-----------|
| Additions to moulds and other fixed assets | 1,992,000 | 940,000 |
| Reduction of long term debt | 475,000 | 374,000 |
| Intangible assets | 150,000 | — |
| | 2,617,000 | 1,314,000 |
| Increase in working capital | 538,000 | 454,000 |
| Working capital—beginning of year | 3,317,000 | 2,863,000 |
| Working capital—end of year | 3,855,000 | 3,317,000 |

(see accompanying notes)

Clarkson Gordon

TO THE SHAREHOLDERS OF C&C YACHTS LIMITED:

We have examined the consolidated balance sheet of C&C Yachts Limited as at September 30, 1981 and the consolidated statements of earnings, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at September 30, 1981 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Comparative figures for 1980 are based upon financial statements which were reported on by other auditors.

London, Canada
November 27, 1981

Clarkson Gordon
Chartered Accountants

Notes to consolidated financial statements for the year ended September 30, 1981.

1. ACCOUNTING POLICIES

The following is a summary of the significant accounting policies followed by the company:

a) Principles of consolidation

The consolidated financial statements include the operations of all subsidiary companies.

b) Foreign exchange

Assets and liabilities in foreign currencies are translated as follows:

Current assets and liabilities at year-end rates; long term assets and liabilities at rates prevailing at date of transaction; income and expenses (other than depreciation and amortization) at the average rate of exchange in effect during the year. The gain or loss arising from application of these policies is included in income.

c) Inventory valuations

Finished yachts and yachts in process are valued at the lower of cost and net realizable value. Raw materials and supplies are valued at the lower of cost and replacement cost with cost determined on the first-in, first-out basis.

d) Depreciation

The cost of buildings, machinery and equipment are depreciated over their estimated useful lives by annual charges to operations, using the reducing balance method at the following rates:

| | |
|-------------------------|------------|
| Buildings | 5 percent |
| Machinery and equipment | 20 percent |
| Automotive equipment | 30 percent |

Mould costs are charged to operations over the estimated marketing life of the model on a straight line method. Leasehold improvements under operating leases are being depreciated on a straight line method over the lives of the leases (approximately 10 years).

e) Leases

Leases are classified as either capital or operating leases. A lease that transfers substantially all of the benefits and risks of ownership of property to the company is accounted for as a capital lease. At the time a capital lease is entered into, a fixed asset is recorded together with its related long term debt obligation to reflect the acquisition and financing.

Buildings and equipment recorded under a capital lease are depreciated using the rates of depreciation applied to the corresponding classes of fixed assets. The debt obligation under the capital lease is reduced by rental payments net of imputed interest.

Lease payments under operating leases are expensed as incurred.

f) Intangible assets

Intangible assets consist of the excess of cost of shares in subsidiary companies over net book value at date of acquisition prior to April 1, 1974, which is not being amortized as no diminution of value is believed to exist. Goodwill acquired subsequent to April 1, 1974, is being amortized to income by the straight line method over 10 years.

g) Income taxes

The deferral method of tax allocation in accounting for income taxes is followed. Under this method, timing differences between reported and taxable income result in deferred income taxes.

2. INVENTORIES

| | 1981 | 1980 |
|----------------------------|-------------|-------------|
| Finished yachts | \$2,757,000 | \$1,273,000 |
| Yachts in process | 2,147,000 | 1,716,000 |
| Raw materials and supplies | 3,033,000 | 2,763,000 |
| | 7,937,000 | 5,752,000 |

3. DISCONTINUED OPERATIONS

During the year the company disposed of the fixed assets of C&C Yachts GmbH. The company has included in accounts payable and accrued liabilities a provision for any future liabilities associated with the German entities.

4. FIXED ASSETS AND LEASED PROPERTY

| | 1981 | | | 1980 |
|-------------------------|------------|--------------------------|------------|------------|
| | Cost | Accumulated depreciation | Net | Net |
| Land | \$ 385,000 | \$ — | \$ 385,000 | \$ 385,000 |
| Buildings | 3,063,000 | 952,000 | 2,111,000 | 1,840,000 |
| Construction in process | 268,000 | — | 268,000 | — |
| Machinery and equipment | 1,912,000 | 1,093,000 | 819,000 | 765,000 |
| Moulds | 2,966,000 | 1,830,000 | 1,136,000 | 821,000 |
| Leasehold improvements | 364,000 | 167,000 | 197,000 | 155,000 |
| | 8,958,000 | 4,042,000 | 4,916,000 | 3,966,000 |

Properties under capital lease include land, buildings and equipment of \$1,293,000 less accumulated depreciation of \$381,000. The construction in process at year end relates to the new head office facilities at Port Credit. The company has committed approximately \$500,000 for completion of these facilities which is not provided for in these financial statements.

5. OTHER ASSETS AND DEFERRED EXPENSES

| | 1981 | 1980 |
|---|---------|-----------|
| Loan to shareholder trust | \$ — | \$ 23,000 |
| Funds in trust for service of Rhode Island debt | 164,000 | 164,000 |
| Unamortized financing costs | 49,000 | 55,000 |
| Other | 10,000 | 10,000 |
| | 223,000 | 252,000 |

6. BANK INDEBTEDNESS

Bank indebtedness and bank loans are secured by general assignments of book debts, specific charges on fixed assets, and floating charge debentures over the remaining assets of the company and its subsidiary companies.

7. LONG TERM DEBT AND OBLIGATION UNDER CAPITAL LEASE

| | | | 1981 | 1980 |
|---|-----------------|----------|------------|------------|
| C&C Yachts Limited | | | | |
| Term bank loan | | | \$ — | \$ 185,000 |
| C&C Yachts Inc. | | | | |
| Rhode Island Port Authority 8% Industrial Revenue Bonds | U.S.\$1,290,000 | a) | 1,338,000 | 1,386,000 |
| Term bank loan (1) | U.S.\$ 317,000 | (note 6) | 354,000 | 542,000 |
| C&C Yachts Manufacturing Limited | | | | |
| Term loan—12% | | b) | 816,000 | 873,000 |
| Note—11% | | c) | 176,000 | — |
| Total amount outstanding | | | 2,684,000* | 2,986,000 |
| Less: due within one year | | | 403,000 | 450,000 |
| | | | 2,281,000 | 2,536,000 |

*The long term debt in foreign currency is translated at the rate prevailing at date of transaction. If the debt were translated at year end rates, the total amount outstanding would be \$2,930,000 as compared to \$2,684,000. (1) Prime bank rate plus ¾%, due 1983.

a) In 1975, the Rhode Island Port Authority purchased land and constructed a plant at Middletown, Rhode Island. The Authority financed the plant by the issue of bonds repayable in instalments over a 20 year period. C&C Yachts Inc. rents this facility on a net lease basis for annual payments sufficient to fully service the debt, and will purchase the facility for \$1 on repayment of the debt. The remaining imputed interest cost under this capital lease is U.S. \$823,000. C&C Yachts Limited and C&C Yachts Manufacturing Limited have guaranteed the obligation of C&C Yachts Inc. under this agreement. Under terms of the financing agreement, an amount equal to one year's debt service is required to be deposited with the trustees.

b) Secured by mortgage on land, buildings and equipment at that company's plants in Niagara-on-the-Lake and Oakville, Ontario, and a subordinated floating charge, due June 1982. The company has received an offer to extend the existing term loan for a further five year period at a rate of prime plus 1½%. Based upon management's intentions to renew the term loan, a portion continues to be disclosed as long term debt.

c) Secured by an 11% promissory note due September 1983. In addition, the company has an option to extend the due date to September 1985.

d) Principal repayment requirements on long term debt and obligation under capital lease over the remaining term are as follows:

| | Cdn.\$ | U.S.\$ |
|-----------------|---------|-----------|
| 1982 | 95,000 | 255,000 |
| 1983 | 83,000 | 177,000 |
| 1984 | 83,000 | 60,000 |
| 1985 | 83,000 | 65,000 |
| 1986 | 39,000 | 70,000 |
| 1987 and beyond | 609,000 | 980,000 |
| | 992,000 | 1,607,000 |

8. LEASE COMMITMENTS

The following table discloses the future minimum lease payments under operating leases of the company.

| | Total |
|-----------------|------------------|
| 1982 | \$ 338,000 |
| 1983 | 304,000 |
| 1984 | 262,000 |
| 1985 | 250,000 |
| 1986 | 138,000 |
| 1987 and beyond | 685,000 |
| | <u>1,977,000</u> |

9. SEGMENTED INFORMATION

The company sells the majority of its yachts through dealers in the United States, Canada and Europe. The company also sells directly to charter fleet operators and custom yachts are frequently sold directly to individuals. In arriving at the geographic distribution of sales, the location of the dealer is the deciding attribute with all dealer sales. With other sales, the jurisdiction to which the purchaser pays sales taxes determines the location of the sale.

The Canadian company sells products to U.S. dealers and U.S. customers through C&C Yachts Inc., its U.S. affiliate. Many of these products are manufactured by C&C Yachts Manufacturing Limited in Canada. Interarea transfers are made at a discount from list selling price for finished yachts and at a markup on cost for parts and tooling.

| | Canada | U.S. | Elimination | Consolidated |
|---------------------|--------------|--------------|-------------|--------------|
| Sales: | | | | |
| Outside Customers | \$16,905,000 | \$22,747,000 | \$ — | \$39,652,000 |
| Interarea | 13,569,000 | 99,000 | 13,668,000 | — |
| Total Sales | 30,474,000 | 22,846,000 | 13,668,000 | 39,652,000 |
| Net Earnings | 1,469,000 | 200,000 | — | 1,669,000 |
| Identifiable Assets | 11,746,000 | 6,880,000 | — | 18,626,000 |

10. REPURCHASE AGREEMENTS

The company participates in agreements with financial institutions whereby certain yacht dealers may finance the purchase of yachts from the company with these institutions. Under the terms of the agreements, the company is contingently liable to repurchase yachts for the outstanding balance of the debt should the dealer default on the obligation with a financial institution prior to the time that a yacht is sold to a retail customer. Total loans outstanding at September 30, 1981, were approximately \$2,069,000 (\$2,170,000 in 1980).

11. ACQUISITION

During the year the company acquired net assets in the amount of \$100,000 and purchased goodwill of \$150,000 from Harbour Marine Services for a total of \$250,000 of which the company paid \$30,000 cash and issued an 11% promissory note.

12. SUBSEQUENT EVENT

On November 27, 1981 the company entered into an agreement to amalgamate with 490859 Ontario Limited, a shareholder who holds 70% of the issued and outstanding common shares, which amalgamation is subject to approval by the shareholders of both companies. If the amalgamation is approved, the 404,400 common shares of the company held by shareholders other than 490859 Ontario Limited will be exchanged for 404,400 first preference shares of the amalgamated company. It is intended that these shares will be redeemed for \$6.00 each.



Corporate Information

Directors

Austin C. Beutel
George H. Cuthbertson, Chairman
Christopher D. Hyde
Donald J. McDougall
George F. Plaxton
James R. Plaxton
Bruce A. Sully

Officers

George H. Cuthbertson
Chairman and Chief Executive Officer

David M. Gee
President and Chief Operating Officer

J. Robert Forsey
Vice-President

Erich K. L. Bruckmann
Vice-President

Irene P. Yersh
Secretary

Head Office

C & C YACHTS LIMITED
1226 White Oaks Boulevard
Oakville, Ontario L6H 2B9

Subsidiaries

C & C YACHTS
MANUFACTURING LIMITED
526 Regent Street
Niagara-on-the-Lake
Ontario L0S 1J0

1490 Speers Road
Oakville, Ontario L6L 2X6

C & C YACHTS INC.
Box C, Oliphant Lane
Middletown, Rhode Island
02840

C & C YACHTS
DEVELOPMENT LIMITED
1226 White Oaks Boulevard
Oakville, Ontario L6H 2B9

C & C YACHT SALES LIMITED
1226 White Oaks Boulevard
Oakville, Ontario L6H 2B9

Auditors

Clarkson, Gordon & Co.
Chartered Accountants
380 Wellington Street
London, Ontario N6A 5B5

Legal Counsel

Messrs. Miller, Thomson,
Sedgewick, Lewis & Healy
20 Queen Street West
Toronto, Ontario M5H 3S1

Transfer Agent and Registrar

Canada Permanent Trust Company
20 Eglinton Avenue West,
Toronto, Ontario M2R 2E2

